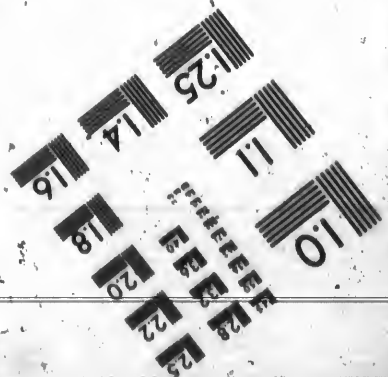
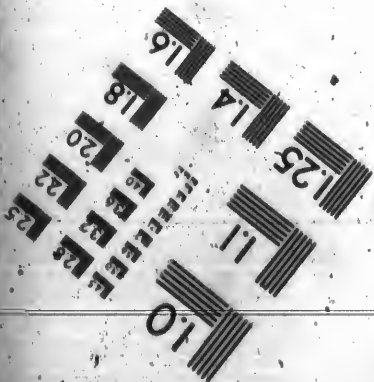
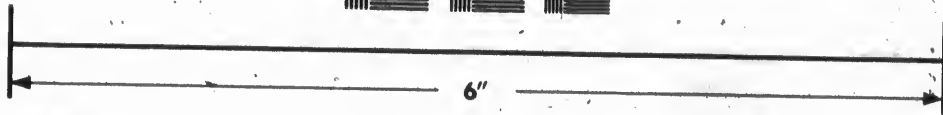
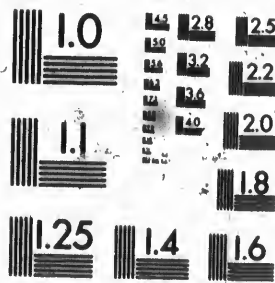


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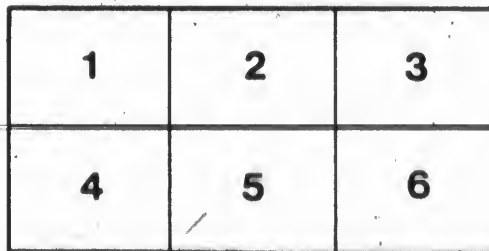
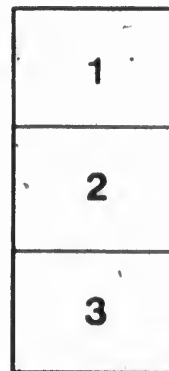
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THE CANADIAN PACIFIC RAILWAY CO.

OFFICE OF THE SECRETARY.

MONTREAL, May 8th, 1885.

To the Shareholders.

For the information of the shareholders of the Canadian Pacific Railway Co., I am instructed to transmit the enclosed copies of papers relating to the affairs of the Company which were laid on the table of the Dominion Parliament yesterday; also a copy of the Resolutions which the Government have brought down, and have given notice, will be moved on an early day.

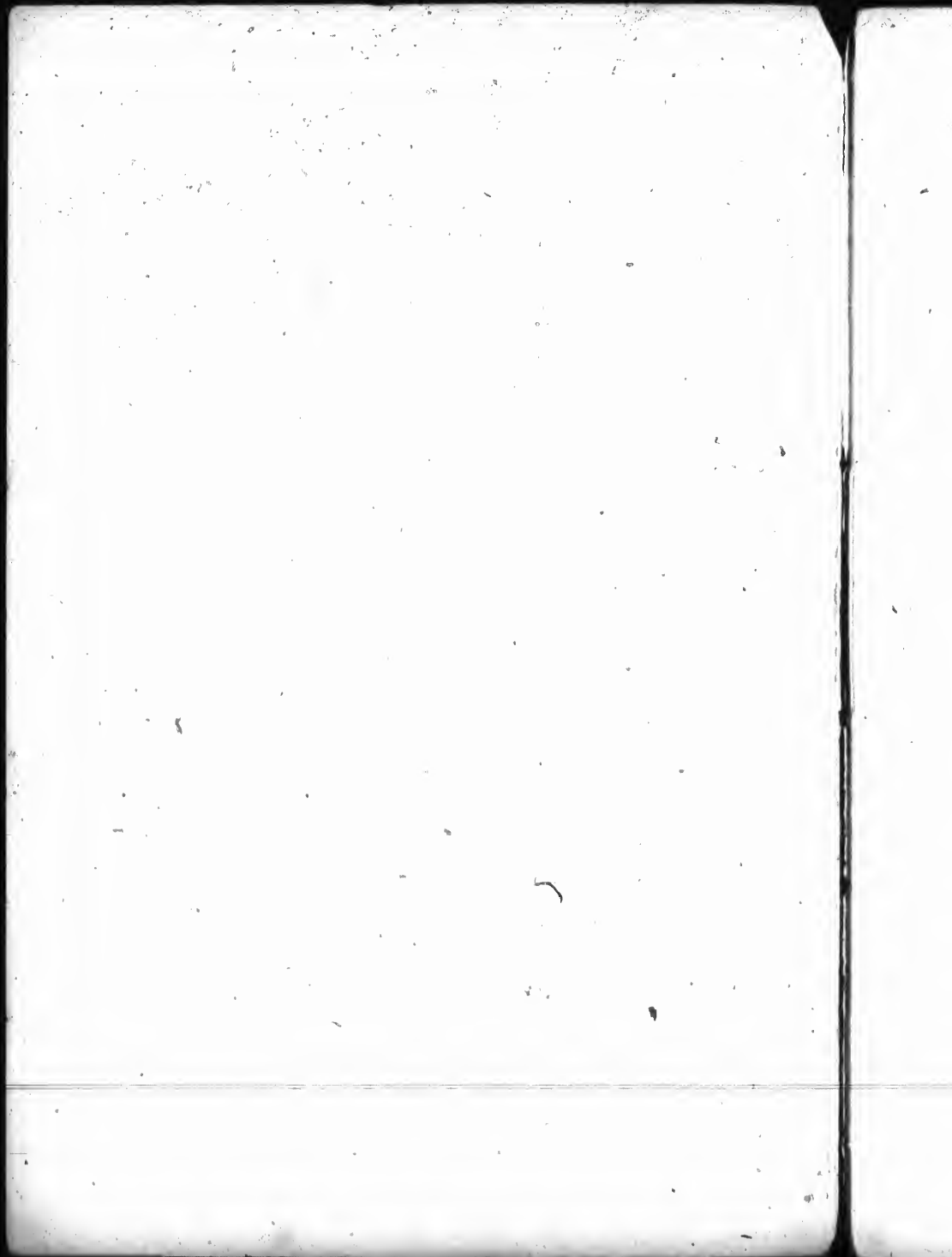
I am further instructed to say that, as it must be some weeks before the legislation giving effect to these resolutions can become law, it will be necessary to adjourn the Annual and the Special meeting of the shareholders, advertised to take place here on the 13th instant, to the 13th day of June next, when the annual report of the Directors will be submitted, with a balance sheet, and detailed statements on all matters pertaining to the position of the enterprise.

As there appears to be some misapprehension as to the nature of the obligation assumed by the Dominion Government in regard to the payment of the dividend of 3 per cent. per annum, on the \$65,000,000 capital stock of the Company, I am instructed to state that the Government, for valid consideration, contracted with the Bank of Montreal, as Trustee for the individual shareholders of the Canadian Pacific Railway Co., to pay the said dividend half yearly until August, 1893, and that the proposed re-arrangement of the Company's finances does not, and cannot in any way, affect this undertaking, or interfere with the regular payment of the said dividend to the shareholders.

By order of the Board,

CHARLES DRINKWATER,

Secretary.



Letter of Mr. GEORGE STEPHEN, President of the Canadian Pacific Railway Company, to the Hon. Minister of Railways and Canals.

CANADIAN PACIFIC RAILWAY COMPANY,

MONTREAL, 18th March, 1885.

SIR,

In view of the approaching completion of the contract for the construction of the Canadian Pacific Railway from Callander to the Pacific ocean, according to the contract entered into by this company, and of the consequent necessity for making timely and adequate provision for the unexpectedly large volume of traffic which the line has already developed, as well as for the great increase which it is now certain will take place on the opening of the through line in the spring of 1886, the company finds itself compelled to seek for some re-arrangement of its finances which will enable it to procure the necessary capital required for this purpose. I have, therefore, the honor, on behalf of the Board of Directors of this Company, to submit to you some observations upon the position of the company, and offer some suggestions as to the necessary remedial measures for restoring to the company the free use and control of its own resources, and, at the same time, of practically providing for the repayment of the loan of last session, and relieving the Government, finally and forever, from all responsibility for or connection with the Canadian Pacific Railway.

It will be remembered, that under the provisions of the Act of last session, the Government, as security for the repayment of the loan to the company, deemed it necessary to take a statutory lien, not only on the line con-

tracted to be built, but on the whole property of the company, including its steamers and branch lines, practically stripping it of every resource it possessed, and leaving it without any means of providing for the important purposes of the enterprise, outside of the mere work of construction of the main line from Callander to the Pacific Ocean, and its equipment, to the extent contemplated by the contract, except its unsold stock. That resource, the only one the company had left, was rendered unavailable owing, to some extent, to the provision in the Act, by which, in case of default on the part of the company in performing the conditions on which the loan was granted, the Government could practically confiscate the whole property of the Company, but also, in a greater measure, to the unfair and malevolent attacks of the enemies of the company, acting in concert with some, happily only some, of the political opponents of the Government, aided by a venal section of the newspaper press of the country.

From these quarters the company and its resources have been unceasingly assailed and discredited during the whole of the past year in the most unprincipled and unpatriotic manner. A large portion of the country traversed by its lines has been decried as a barren and worthless desert; the advantages of the Northwest, as a field for emigration, have been depreciated, and attempts have been made to create the impression that the line, when opened, could not possibly pay its working expenses, and that the Government would be compelled to take possession of it and operate it at a loss to the country, variously estimated at from \$3,000,000 to \$8,000,000 annually. In fact, the enemies of the company, both at home and abroad, availed themselves of the stringency of the provisions of the Loan Act, and of persistent and unfounded misrepresentations of the country, and of the conduct of the company, for the scarcely concealed purpose of wrecking the enterprise.

By these means investors were alarmed, the stock was prevented from becoming, as was expected, a means of providing the company with the funds necessary for carrying on its business efficiently, and the credit of the company was all but destroyed.

The company, it will be remembered, at the time of the passage of the Act, earnestly, but ineffectually, remonstrated against the severity of the conditions on which the loan was granted; especially pointing out the damaging effect on the future credit of the company, of the stringent and apparently inequitable character of the remedy taken by the Government, in the event of default by the company, and their apprehensions in these respects have been fully realized.

The shares of the company, at the time of the passing of the Act last session, were selling at about \$60 per \$100 shares, and were expected to advance to \$75 or \$80. Shortly afterwards they began to decline; and they are now quoted under \$40. And, under the circumstances stated, it is not surprising that the stock of the company should fail to command the confidence of the investing public.

The amount of the loan provided for by the act of last session was \$22,500,000; \$7,500,000 of which were appropriated to pay existing obligations, leaving \$15,000,000 for the purpose of completing the contract. This amount, plus \$12,710,000 unpaid subsidy then in the hands of the Government, gave a total of \$27,710,000 applicable only to the work under contract. The mode provided by the Act for obtaining payment out of this fund rendered it impossible that any part of it could be drawn from the Government for any purpose, except for the bare cost of construction, with the stipulated amount of rolling stock. Before any such payment could be made, an estimate was required to be prepared by the Government engineers, as the work proceeded, of the proportionate value of the work done;

and the amount of such estimate, less ten per cent., was paid to the company. But, in order to make the Railway a first class carrying power, with all the appurtenances and appliances necessary to enable it to compete successfully with the best of the American trans-continental lines, much had to be done and provided besides the mere work of construction and equipment according to the contract, and these requirements are not materially diminished by the fact, which is admitted, on all hands, that the whole line has been constructed of a quality and character far exceeding the standard agreed upon between the Government and the company.

Upon the opening of the Railway in the Spring of next year, it cannot dispense with a full provision for its efficient and vigorous operation without great injury to its prestige and future reputation. Its road bed for the 2,900 miles from Montreal to the Pacific Ocean, its facilities for handling traffic, and its equipment, must be of the highest class, not inferior to those of any other trans-continental line, otherwise it will not command the traffic, and the enemies of the enterprise will take a delight in pointing to it as a reproach, both to the country and the company.

For these purposes, the usual improvements required upon all new railways have to be made. Terminal facilities require to be provided, workshops have to be built and furnished with expensive machinery, elevators require to be constructed and many other things have to be done to provide for the unexpected development of traffic already reached, and for the still greater volume which is certain to follow the opening of the line. Many of these things had to be done at once, and could be most economically provided concurrently with construction. It would have been unwise and improvident in the extreme to have postponed such provision until the last rail should be laid; and the Company accordingly felt obliged to proceed to some extent with the most important

of these improvements. In doing so it relied upon the proceeds of its unsold stock. It could not obtain one dollar for any of these purposes under the Act of last Session, the provisions of which, as has been shown, were confined to the actual work of creating the bed of the railway, laying the track, and supplying it with a certain quantity of rolling stock. The expenditure during the past year, outside of the contract, for the purposes referred to, amounts to about \$5,000,000, and, in addition, in order to keep faith with the shareholders, provision had to be made for the payment of the promised extra dividend; and interest had to be paid amounting altogether to about \$3,000,000 more. And as it was found impossible to realize upon the unsold stock, some of the Directors resident in Montreal gratuitously came to the assistance of the Company, pledging their personal credit and their own private securities for the benefit of the Company, and so the money for the latter expenditure was found.

In the meantime the work of the contract has been carried on with the utmost energy and rapidity; and it will be completed before the stipulated time, the money remaining in the hands of the Government, amounting on the 31st December last to \$8,726,949, being sufficient to complete the performance of all the obligations of the Company under the contract. As was expected, there has been a large saving effected on the cost of the work on the Mountain Section, but the advantage thus obtained has been absorbed in extra expenditure on the Lake Superior section.

To enable the Company to procure the additional capital that will be required for the purposes indicated, I beg respectfully to propose:—

1. That the \$35,000,000 unsold stock shall be cancelled.
2. That authority be granted to the Company to issue, in lieu thereof, \$35,000,000, four per cent., fifty year, first mortgage bonds secured by a first lien on the main line of the Railway from Montreal to the Pacific

Ocean, covering all terminals built, or to be built, and all equipment and rolling stock now on the line, or that may be hereafter put upon it; together with its tolls and revenues, subject, of course, to the existing mortgages on the line from Montreal to Callander.

3. The Government to accept \$15,000,000 of these bonds in part settlement of the loan to the Company, the balance of the loan to be paid off by a reduction of the land grant, to an extent necessary to cover the amount of the balance of the loan, at the rate of \$2 per acre, which is 46 cents per acre less than the lands already sold have netted the Company in cash.

The loan of last session would thus be practically paid off, and the Company would have in its Treasury ample resources from its first mortgage and land grant bonds to provide for its present wants as well as for the future development of its business; and with its credit restored and re-established in the confidence of its shareholders it would then be in a position to proceed, 1st, with the much wanted extension of the Manitoba South Western Railway; 2nd with the completion of the line to Sault Ste. Marie; 3rd, to secure, in some way, a connection with the City and Harbor of Quebec; 4th, with reasonable aid from the Government to extend the Canadian Pacific system to the ocean ports of the Maritime Provinces; 5th, it would also be in a position to aid indirectly in securing the early completion of its Ontario Division to the Detroit River, and at the same time, removing for ever, all necessity for any further applications to the Government for assistance on the part of the Company. Its further necessities and the success or failure of the enterprise would thus be entirely the affair of the shareholders themselves.

4. To enable the company to provide for present wants, and to give it time to realize on its securities, the Government to make a temporary loan of \$5,000,000 for a term not exceeding eighteen months, on the security of the postal subsidy payable by the Government to the company, supplemented by the Government of \$5,000,000 four per cent. first mortgage bonds.

5. If the foregoing suggestion is adopted, an amount of the Land Grant Bonds in the hands of the Government, equivalent to the number of acres deducted from the land grant, must be cancelled; the balance of those bonds, then remaining, to be returned to the company.

I regret that circumstances should have placed it in the power of the enemies of the Company to compel it to make this application to the Government; but hope the suggestions now offered will receive favorable consideration. Their adoption would have the effect of gradually restoring the credit of the Company, and of placing the enterprise in a condition to do its work efficiently and

successfully, without involving the government in any permanent additional outlay on behalf of the Company, and actually providing for the practical repayment of the existing loan.

In conclusion it only remains for me to add that, in making this application to the Government, I do so with the fullest faith and confidence in the present and future money-earning power of the enterprise. I am satisfied that the resources of the Company are amply sufficient faithfully and honestly to discharge every obligation it has incurred, whether to the Government or to others; and that the Canadian Pacific Railway, upon its final completion and equipment, will be one of the most important and prosperous Railway properties on this continent.

Statements are appended showing the amounts expended on improvements, on main line and branches, rolling stock, etc., in 1884, beyond the requirements of the contract; and an estimate of the probable expenditure, for similar purposes, up to May, 1886, with several other statements bearing on some of the matters referred to in this letter.

I have the honor to be

Sir,

Your obedient servant,

(Signed, GEO. STEPHEN
President.

The Honorable the Minister
of Railways and Canals, Ottawa.

Statement showing the amounts expended by the Company on 31st December, 1884, on construction of main line and branches, extensions, terminals, improvements, equipment, interest and dividends; also showing the total

amount received by the Company from its cash and land subsidies, and from Government loan :

1. Expended on main line and branches.....	\$52,595,842
2. Expended on equipment.....	9,168,755
3. Expended on improvement of Government lines.....	1,241,780
4. Material on hand.....	3,687,729
5. Expended on advances to secure access to the Seaboard, and for other purposes within the charter, and on leased lines.....	5,857,223
Total expenditure to 31st December.....	<u>\$72,551,329</u>

ADDITIONAL EXPENDITURE.

Sum now in hands of Government to pay nine years guaranteed dividend.....	\$14,288,288
Dividend paid.....	5,378,000
Interest on land grant bonds.....	582,734
	<u>\$22,249,022</u>
Total amount received from cash and land subsidies and from Government loan.....	55,532,651
Balance.....	<u>\$37,267,700</u>

I. G. OGDEN,
Auditor.

Amount expended in excess of receipts up to 31st December, 1883, as shown by statement of that date.....	\$37,377,175
Amount received from Government loan to apply on 1883 expenditure.....	7,500,000
	<u>\$29,877,175</u>
Amount expended in excess of receipts up to 31st December, 1884, as shown by statement of that date.....	37,267,700
	<u>\$7,300,525</u>
Add—Amount deducted from estimates paid by Government to repay advances on rails of 1883.....	339,235
Net increase of expenditure over receipts from Government subsidy and loan during 1884.....	<u>\$7,729,760</u>

I. G. OGDEN,
Auditor.

The above statement is made in comparison and to cover items in statement of 1883, but does not cover expenditure for interest, general expenses, interest on Government loans, &c.

Estimated probable expenditure to June, 1886, for additional equipment and improvements, and for additional facilities necessary to advantageous operation, and full development of traffic.

For sleeping cars, passenger cars, dining cars, baggage, mail and express cars, emigrant cars, box and cattle cars, conductors' cars, derrick, tool and other auxiliary cars, locomotives, hand cars, push cars, track tools, semaphores and other equipment requisite for operation of line, also for restoring construction locomotives to good working condition	\$1,000,000
For elevators, Port Arthur, Montreal, &c., coal bunkers, Montreal, additional real estate, Montreal and elsewhere, revetment walls at Montreal, additional depot and tracks and other facilities, Montreal and other points, additional yard room and tracks, coal and other docks, and other terminal facilities at Fort William and Port Arthur	1,500,000
For Divisional shops and machinery at nine points, coal docks and machinery at two points on Lake Superior section. Station buildings, section houses and miscellaneous buildings at various points, additional station sidings and crossings, tracks at various points, extension of Divisional yards, additional engine houses, improvement in water supply, additional tanks, permanent bridge work at various crossings Bow River and on other sections, additional ballasting, filling trestles and raising roadway	600,000
For completion telegraph system, main line and branches ..	275,000
For connection with Coal Harbor and English Bay, shops, buildings, docks, tracks and other facilities at Pacific terminus	700,000
Contingent expenses	910,000
	<u>\$5,045,000</u>

CONTINGENT EXPENDITURE.

Snow sheds in Mountains	\$450,000
Snow protection, Lake Superior section	100,000
Prairie section, obliterating remaining cuttings	100,000
Terminal facilities at Quebec	200,000
	<u>\$910,000</u>

Statement of amounts expended on improvements on main line and branches, additional equipment, &c., in 1884 in excess of estimates received, and beyond requirements of the contract, and for which no part of the government loan or subsidy was available :—

Montreal to Sudbury.....	\$ 843,694
Sudbury to Winnipeg.....	1,382,845
Winnipeg West.....	1,209,790
Expended on branches.....	578,048
Expended on Government lines.....	150,435
Expended in additional equipment.....	547,866
	<u>\$4,702,684</u>
Amount paid during 1884 on interest dividends, exchange, insurance and general expenses.....	3,478,485
	<u>\$8,181,269</u>
Not included in above the estimate of extra expenditure on construction between Michipicoten and Port Arthur beyond the requirements of the contract, amounting to	\$2,500,000

Statement of the Accountant appointed by the Government to examine the books of the Company.

OTTAWA, 4th May, 1885.

SIR,—I have the honour to state that, in accordance with your instructions of the 13th ult., and the further verbal request of the honourable the Finance Minister, I have carefully examined into the books of the Canadian Pacific Railway Company, and have extracted from them a balance sheet showing the state of affairs on the 31st December, 1883, and the 31st December, 1884, respectively. From this balance sheet I have constructed a statement, exhibiting those phases of their expenditure into which the honourable the Finance Minister directed me more particularly to enquire, viz.:—The extent of expenditure made by the Company upon the main line (from Montreal to the Pacific Coast) out of its own resources, independently of moneys received from the Gov-

ernment, and the proximate causes which have led to the existence of a floating debt of from \$6,000,000 to \$7,000,000. I append the statement hereto, and have the honour to be, Sir

Your obedient servant,

EDWARD MIALL.

Hon. J. H. Pope, Minister of Railways and Canals.

BALANCE SHEET.

Canadian Pacific Railway—Condensed balance sheet 1st January, 1885:	
West of Callander—	
Construction	\$48,382,084
Improvements	1,241,780
Materials	3,687,729
	\$53,311,593
East of Callander—	
On main line	4,213,758
Equipments on main line	9,168,755
Interest, etc., on financial matters in connection with construction, handling material, etc.	1,389,474
	\$48,083,580
Received from Government—	
Subsidy	\$20,240,317
Loan—	
Less retained for dividend guarantee, \$7,380,912.	18,626,600
Land—	
Proceeds of	8,702,086
	\$47,569,003
Expended on main line out of Company's resources	\$20,514,577
Expended out of Company's funds on connections	5,857,224
Dividend	5,378,000
Deposit with Government to guarantee dividend	6,907,377
	\$38,657,178
Total expenditure made and liabilities incurred of other than Government resources	
Provided thus .	
Capital	\$29,568,123
Bonuses	232,000
Town sites	504,675
Earnings	\$1,026,063
Less—Balances due	169,745
	1,450,318
Floating debt	6,895,462
	\$38,657,178

RESOLUTIONS.

On Tuesday, the 30th April, 1885, the Premier, The Rt. Hon. Sir John A. Macdonald, gave notice in the House of Commons of, and laid on the table, the following Resolutions:—

1. That the Canadian Pacific Railway Company, under the authority of its shareholders, as provided by the 28th section of its Charter, may issue and deliver to the Government first mortgage bonds to the extent of \$35,000,000, bearing 5 per cent. interest, such bonds to constitute and be a first lien and charge on the entire property of the Company, real and personal, now owned or hereafter to be acquired, or owned by it (save and except the lands granted or to be granted by the Government to the Company under the said contract), including its main line of Railway with its tolls and revenues, the extensions thereof; its branch lines of Railway (except the Algoma Branch), the whole of its equipment, rolling stock and plant, and all its steamers and vessels, saving always, however, the rights of the holders of the existing mortgages on the extensions of the line of the Railway from Callander to Brockville and Montreal as security for the unpaid balances of the purchase money of the said extensions.

2. That the Company may secure the payment of the said Bonds and of the interest thereon by a Deed of Mortgage executed by the Company to Trustees to be approved by the Government, with the authority and of the tenor and purport, and containing the conditions, remedies, provisions and powers authorized and provided for by the 28th Section of the Charter of the Company, to such extent and in such manner and form as shall be approved by the Governor in Council.

3. That upon the issue and delivery of the said Bonds to the Government, the lien and charge created by the

Act 47 *Victoria*, Chapter 1, intituled: "An Act to amend the Act respecting the Canadian Pacific Railway Company and for other purposes"; upon the Railway and property of the Company affected by the said Bonds and by the Deed of Mortgage securing the same shall cease to exist, and shall be released and discharged in respect of the Railway and property so affected, and the shares in the capital stock of the Company, to the extent of \$35,000,000 now in the hands of the Government shall be cancelled and destroyed. But the Algoma Branch shall still remain charged with the lien and charge created by the said Act.

4. That the time for the payment of the entire loan to the Company of \$29,880,912 shall be fixed at the first day of May, 1891, and so long as default shall not occur in the payment of principal or interest at the times when they shall respectively become due, the interest upon the said loan shall be computed at the rate of 4 per cent. per annum. But the Company may at any time pay the amount of the said debt or any part thereof in sums of not less than \$1,000,000; and if such payment be made on account of the sum of \$20,000,000, hereinafter mentioned, the amount of Bonds shall be returned to it.

5. That as security for the payment of \$20,000,000 of such loan and of the interest thereon, the Government shall hold and retain \$20,000,000 of the said first mortgage bonds, and in respect of such bonds shall have all the rights of bondholders except as to the rate of interest as provided in the last preceding section. And upon payment of any half-yearly instalment of such interest the half-yearly coupons attached to the said bonds, corresponding to such half-yearly payment of interest, shall be cancelled and surrendered to the Company. But if the Company makes default in the payment of the interest on the said sum of \$20,000,000 or of the principal thereof at

the time when the same shall become due respectively, the rate of interest upon the whole loan shall thereafter be computed at the rate of 5 per cent. per annum; and such default shall be equivalent to a default in the payment of the interest on the said Bonds, and shall entitle the Government to the same remedies as if default had been made in the payment of the interest or principal of the said Bonds; and upon the Company remaining in default in respect of either the principal or interest on the said \$20,000,000 for a period of 12 months, the Trustees shall be authorized and empowered to take possession of the property mortgaged and to administer the same for the benefit of the bondholders generally.

6. That as security for the payment of the balance of the said loan amounting to the sum of \$9,880,912, and the interest thereon, the Government shall have a first lien and mortgage, subject to the outstanding Land Grant Bonds, on the whole of the unsold lands forming the remaining part of the Company's Land Grant earned and to be hereafter earned, such principal and interest to be paid out of the nett proceeds of the sale of such lands; and the Government shall continue to hold and retain the entire amount of Land Grant Bonds now in its custody and possession as provided by the said Act. And if the nett proceeds of such sales to be made from time to time in due course, shall be insufficient to pay the interest on the said last mentioned amount as the same shall fall due, or the principal thereof, when the same shall become due, the Governor in Council may order the sale by the trustees of such lands or any part thereof in such manner as shall be fixed by such order, in satisfaction of the interest or principal in respect of which default has occurred. And after the sale of the whole of such lands any deficiency in the proceeds thereof to pay the amount charged thereon, shall be a charge upon the Company's entire revenue after providing for its fixed charges, and by pre-

ference over the shareholders. And no further or other charge shall be created on the property mortgaged as security for the said first mortgage bonds until the said sum of \$9,880,912 and interest, and also the said sum of \$20,000,000 and interest shall have been paid in full; and after payment out of the proceeds of such lands of the outstanding Land Grant Bonds, and of the said sum of \$9,880,912 and interest, the remainder of such lands shall remain charged with a first lien and privilege in favor of the Government as additional security for the payment of the said sum of \$20,000,000 and interest.

7. That the Government may make a temporary loan to the Company of \$5,000,000 to be repaid by the Company to the Government on or before the 1st day of July, 1886, with interest at the rate of 4 per cent. per annum payable on the 1st day of January and the 1st day of July, 1886, the Company to have the right to repay the said loan by instalments of not less than \$1,000,000 each, and to receive on the payment thereof, a corresponding proportion of the amount of said bonds held as security therefor; and after reserving part of the said bonds to the amount of \$8,000,000 to be held by the Government as security for the said temporary loan, and to be delivered to the Company on payment to the Government of the said sum of \$5,000,000 and interest in whole or in part in proportion to such payment, the remainder of the said Bonds shall be from time to time paid by the Government to the Company, to be applied by the Company under the supervision of the Government to the payment for work done or to be done for the development, improvement and extension of the Railway, its connections and equipment, and for the maintenance of the credit, and efficiency of the Company generally to the satisfaction of the Government; and if the Bonds in the hands of the Government, or any part thereof, shall be sold by the Company at a price satisfactory to the Government, the proceeds of such sale shall be paid into

the hands of the Government in the place and stead of the Bonds so sold, and such proceeds shall be dealt with as is hereinbefore provided with respect to the Bonds they represent.

8. That the proportion to which the Government is entitled of the moneys realized by the Trustees of the Land Grant Bonds ; and after the redemption of the Land Grant Bonds, the proceeds of all sales of Land granted or to be granted to the Company, under the contract, realized as provided by the said Act, shall be applied to the payment of the interest and principal of the said sum of \$9,880,912. And after payment thereof in full, towards the payment to the Government of the interest and principal of the said sum of \$20,000,000.

9. That the said Act of last Session (47th *Victoria*, Chap. 1), shall remain in force except in so far as it is affected by the provisions hereof.

10. That if at any time any line connecting with the United States system of Railways shall be in course of construction to a point on the river St. Mary's, and there shall be a probability of the early completion thereof; and the Company shall desire to continue the Algoma Branch to a junction with such line; the Governor in Council may, in their discretion, and upon such conditions as they shall determine, order the release and discharge of the said Branch from the lien and charge thereon created by the said Act, and continued by this Act, and may, by such order, authorize the Company to exercise in respect of the said Branch, the power of mortgaging the same in manner and form as provided by its charter with respect to mortgaging the main line thereof, to such extent per mile as shall be fixed by such order, the proceeds of such Bonds to be applied exclusively to the construction of the extension of the said Branch to such junction.

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